

ANNUAL REPORT '74 PHILADELPHIA ELECTRIC COMPANY

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CORPORATION FILE

WHERE THE DOLLAR CAME FROM . . .



OPERATING
REVENUE 91¢

OTHER INCOME 9¢

. . . WHERE IT WENT.



LABOR 12¢

FUEL 40¢

OTHER MATERIAL,
SUPPLIES
AND SERVICES 6¢

DEPRECIATION 7¢

TAXES 12¢

INTEREST AND
PREFERRED
STOCK DIVIDENDS 14¢

COMMON STOCK
DIVIDENDS 8¢

RETAINED EARNINGS 1¢

On the cover

An artist's graphic interpretation of "ENERGY."

ANNUAL REPORT 1974

DIRECTORS

- *Gustave G. Amsterdam
Chairman of the Board
Bankers Securities Corporation
- *George H. Brown, Jr.
Director, Girard Trust Bank
- William T. Coleman, Jr.
Senior Partner, Dilworth, Paxson,
Kalish, Levy & Coleman
- *James L. Everett
President of the Company
- *Robert F. Gilkeson
Chairman of the Board and
Chief Executive Officer of
the Company
- *William W. Hagerty
President, Drexel University
- *William G. Hamilton, Jr.
Director, Singer Company
- Robert D. Harrison
President, John Wanamaker,
Philadelphia
- Paul R. Kaiser
Chairman of the Board
Tasty Baking Company
- Joseph J. McLaughlin
President, Beneficial
Mutual Savings Bank
- John R. Park
Chairman of the Board and President,
American Stores Company

OFFICERS

- Robert F. Gilkeson
Chairman of the Board
- James L. Everett
President
- Charles W. Watson
Senior Vice President
- Henry T. Bryans
Vice President—
Personnel and Public Relations
- Vincent S. Boyer
Vice President—
Engineering and Research
- Edward G. Bauer, Jr.
Vice President and General Counsel
- John H. Austin, Jr.
Vice President—Finance and Accounting
- Martin F. Gavet
Vice President—Gas Operations
- Clair V. Myers
Vice President—
Purchasing and General Services
- William B. Morlok
Vice President—Commercial Operations
- Wayne C. Astley
Vice President—General Administration
- John L. Hankins
Vice President—Electric Production
- William L. Maruchi
Vice President—Electric Transmission and Distribution
- Theodore S. Fetter, Jr.
Secretary
- Morton W. Rimerman
Treasurer
- James D. Lynch
Assistant Secretary
- Patricia M. Rotchford
Assistant Secretary
- Donald P. Scott
Assistant Treasurer
- Alfred M. Newill
Assistant Treasurer
- Joseph W. Ruff
Assistant Treasurer

*Member of Executive Committee

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ANNUAL MEETING

The annual meeting of the shareholders of the Company will be held on April 9, 1975, at eleven a.m., in the Main Auditorium (Curtis Hall), Drexel University, Northeast Corner 32nd and Chestnut Streets, Philadelphia, Pa. Shareholders of record at the close of business February 28 are entitled to vote at this meeting.

Notice of the meeting, proxy statement, and proxy will be mailed under separate cover. Prompt return of the proxies will be appreciated.

MANAGEMENT CHANGES

On June 1, 1974, William H. Jones retired as senior vice president.

On October 28, Patricia M. Rotchford was elected assistant secretary.

Joseph J. McLaughlin was elected a director on November 25.

On December 23, Theodore S. Fetter, Jr. was elected secretary, succeeding Vincent J. Walsh, retired.

GENERAL OFFICE

2301 Market Street,
Philadelphia, Pennsylvania 19101

FINANCIAL HIGHLIGHTS

	1974	1973	Percent Increase or (Decrease)
Operating Revenue	\$1,011,726,459	\$766,657,684	32.0%
Operating Expenses, including Fuel, Maintenance, Depreciation, and Taxes	858,719,597	618,234,328	38.9
Operating Income	153,006,862	148,423,356	3.1
Other Income, including Allowance for Funds Used during Construction	96,553,268	64,760,357	49.1
Income before Interest Charges	249,560,130	213,183,713	17.1
Interest Charges	120,463,147	90,316,711	33.4
Net Income	129,096,983	122,867,002	5.1
Preferred Stock Dividends	33,681,772	27,600,281	22.0
Earnings Applicable to Common Stock	95,415,211	95,266,721	0.2
Dividends on Common Stock	86,458,457	78,350,381	10.3
Balance to Retained Earnings	8,956,754	16,916,340	(47.1%)
Shares of Common Stock—Average	52,716,813	47,846,776	10.2
Earnings Per Average Share	\$1.81	\$1.99	(9.0)
Dividends Paid Per Share	\$1.64	\$1.64	—

Earnings for common stock in 1974 of \$95.4 million were essentially the same as last year, but earnings per share declined to \$1.81 as a result of a 10 percent increase in the average number of shares outstanding.

Common stock dividends were maintained at \$1.64 a share, 66 percent of which were not taxable for federal income tax purposes.

Operating revenue exceeded \$1 billion for the first time in the Company's history, a 32 percent increase over 1973.

Operating expenses rose 39 percent, reflecting spiraling

fuel costs and inflation in all areas of doing business.

Construction expenditures amounted to \$477 million, increasing total investment in plant to \$3.4 billion.

Financing needs during 1974 were met by the sale of two mortgage bond issues of \$125 million each at 8½% and 11% respectively, a \$75 million issue of 9.50% Preferred Stock, a \$125 million 5-year term loan at interest rates based on the prime rate, and \$11 million of Common Stock issued under the Dividend Reinvestment Plan and the Employee Stock Purchase Plan.

RATE INCREASES

On January 1, 1975 the Company was permitted to put into effect parts two and three, for \$54 million and \$58 million, respectively, of our electric rate increase originally filed on January 31, 1974. This increase, and part one for \$24 million which went into effect on April 1, 1974 are subject to refund pending the Pennsylvania Public Utility Commission's (PUC) final order expected in March.

On February 1, 1975 the Company was allowed by the

PUC to increase steam revenue by \$3.7 million. At the same time the steam fuel adjustment clause was revised and placed on a more current basis which will permit the Company to defer fuel cost increases and subsequently recover them in revenue.

On April 6, 1974 a \$2 million electric rate increase was placed into effect by Conowingo Power Company, the Company's Maryland subsidiary.



TO OUR SHAREHOLDERS:

In 1974 total common stock earnings were \$95.4 million, an increase of \$148,000, or 0.2 percent over the previous year. As a result of the 10 percent increase in average shares outstanding, earnings per share were \$1.81 compared to \$1.99 in 1973.

After nine years of design, licensing, construction and testing, two large nuclear generating units at Peach Bottom Atomic Power Station were placed in commercial operation, each with a capacity of more than one million kilowatts of which our entitlement is 42.4 percent. The balance is owned by three other companies in the Pennsylvania-New Jersey-Maryland Interconnection and we will share in the overall savings. These two units when in full operation will save the equivalent of a billion gallons of high-cost oil a year. At current fuel prices, the resulting fuel cost savings exceed the carrying charges on the capital investment in this plant by over \$100 million per year.

In addition to the new nuclear capacity, the Company made significant additions to electric generating capability in 1974 at Croydon and Eddystone stations. The total new capacity, including the Peach Bottom units, cost about \$500 million and added about 1,700,000 kilowatts to the Philadelphia Electric System.

The year was a difficult one financially because of record high interest rates, soaring fuel prices, rampant inflation and regulatory delay in granting vitally needed rate increases.

At year's end, after eleven months of review, sixty public hearings and more than 8,000 pages of testimony, the Public Utility Commission allowed a \$112 million increase in electric rates effective January 1, 1975 subject to refund pending final order. The rate increase was required to meet the problems of rising costs.

During the year, new capital was provided by outside financing totaling \$450 million in new debt and preferred stock bearing a composite cost of 10.5 percent. As the year went on we were unable to carry out all of our financing plans in the face of the realities of the market place. Consequently, the construction program for 1974 and 1975 was reduced by about \$200 million. We expect it to continue at about \$500 million a year after 1975.

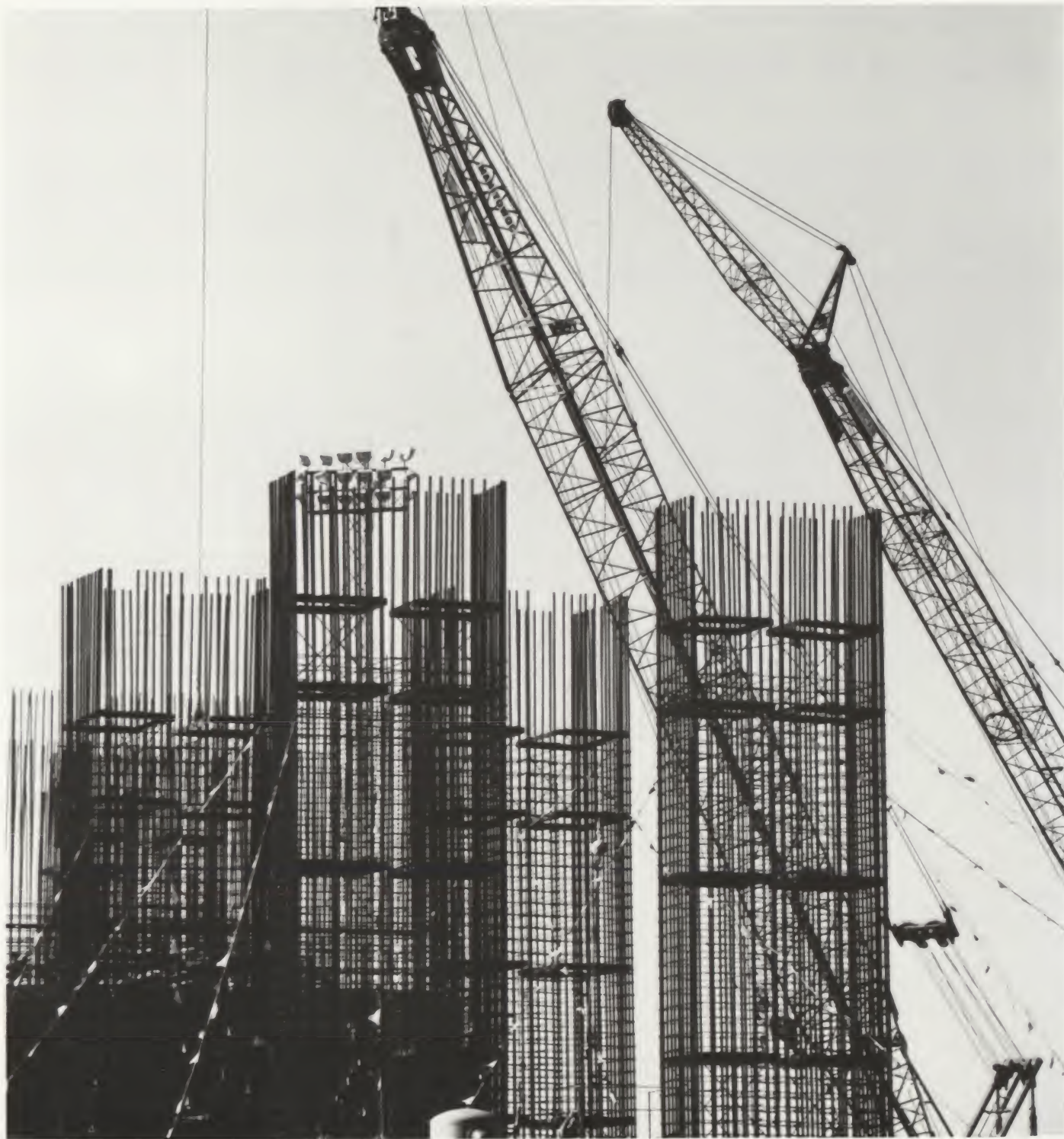
We were fortunate that the Company came into 1974 with a sound, stable and conservative financial position which made it possible to meet many of the year's difficulties. We believe that our year-end position is also healthy and gives good promise for the future. We did maintain the dividend and it is our intention to continue to do so until the economy will permit us to do better. Your management is determined to do its best to maintain the value of our shareholders' investment both by effecting the maximum economy of operation and promptly applying for rate relief when required and justified. We expect the Public Utility Commission to allow us to maintain adequate

financial and construction programs needed to serve our community's increasing needs for energy.

Looking ahead, we have great confidence in the future and we already see signs of improved load growth. We may have other years as difficult as the year behind us, but I can assure you that your Company will continue to meet the coming problems—in the best interests of the people in the area we serve, of our 10,000 loyal employees, and particularly of you, our shareholders who have provided us with the financial tools to do our job.

This year we continue the approach to our annual report started last year. We again asked Peter French, a business writer with 25 years of experience, to help with this report. We asked him to review our activities with our management—and to write his own report. Our hope is it will be both interesting and useful to all those whose loyalty and support have meant much to the Company.

March 3, 1975
CHAIRMAN OF THE BOARD



Steel reinforcing bars outline the columns that will support the turbine generator floor of Limerick Generating Station.

Questions of the Future

"We live in the future. We're always looking at least ten years ahead." Chairman Robert F. Gilkeson has said that many times.

The questions of the future—of the future of the Philadelphia Electric Company and of the Delaware Valley area—came into sharp focus in 1974: Can Philadelphia Electric Company attract the capital to support a construction program running about \$500 million a year? Will nuclear energy, now proving itself the most economical choice, be the prime source? What will be the growth in the use of electricity in P.E.'s service area?

Financing. Can the Company raise the needed capital? The answers rest on the decisions of many thousands of investors, on the regulatory commissions, and in the end on the willingness of the people of the area to accept the costs so that the benefits of adequate electrical power may be available to all the citizens and industries of the Delaware Valley area.

On January 1, 1975 a rate increase of 17 percent became effective subject to possible refund pending final order of the Pennsylvania Public Utility Commission. This was in addition to a rate increase of 4 percent in April, 1974—also subject to the Commission's final order—and increases of 30 to 40 percent in residential customers' bills and as high as 90 percent increase in some of our largest industrial customers' bills during the year to recover higher fuel prices which doubled during 1974.

The January 1 increase brought some promise for the future. It meant the Company could continue a

moderate construction program, building plants to keep up with Philadelphia's growth, plants that will be providing electricity thirty years from now for people who are today children in Philadelphia area schools.

The rate increase didn't answer all the questions. Indeed, it will be years before the answers are in.

Energy Sources. Will nuclear energy continue to prove itself the best choice? Philadelphia Electric believes it will—since it will lessen its dependency on high-cost oil.

The question of natural gas is acute due to the dwindling availability of supplies.

Growth. Will the Philadelphia area and the Company grow? While customer use of electricity declined in 1974—for the first time in thirty years—the company believes an upward trend will be resumed in 1975.

Environmental Costs. The Company and the area have taken positive steps in cleaning up the air and the streams. The costs now are becoming large. They must, in the end, appear on customers' bills. How high will they go? How can they be balanced against benefits?

Large Questions

These are large questions. They involve the federal government's energy policies, American relations with oil-producing countries, the international money markets—and much more.

The interesting thing is how they focus on one company—Philadelphia Electric—which serves a population of nearly four million within a 2475 square mile area in southeastern Pennsylvania and northeastern Maryland. Electricity has become

essential to this civilization—and energy will shape much of the future.

As John S. Kemper, Manager, Engineering and Research, says, the questions confronting us today make a utility "the place where the action is." It's a moving force in working out the problems of society.

Inevitably, these questions raise questions as to the Company's own performance. For years, Philadelphia Electric people have put much of their energy into opening the record for the news media, for stock analysts, for regulatory commissions, and for customers. They intend to leave "every contact a friend." But, in these years, when the very nature of energy problems has been transformed, the questions have piled up.



Specially designed towers improve the appearance of a transmission right-of-way in a local farming area.

The Prospects

As President James L. Everett sees it, Philadelphia Electric's problems were never more difficult. "But, you can't stand still and wring your hands. Our job is to solve problems." A key problem is the lag in getting decisions from regulatory commissions. If the Company would earn what the regulatory commissions have repeatedly said it should be allowed to earn, the financing problems would largely disappear. As it is, commissions base their decisions on costs during a "test year"—which ends three months before the Company applies for relief. The commission deliberates a year—and in a year like 1974, costs rise 10 percent or more while it deliberates. So, it's difficult for P.E. to "catch up" with its costs.

"It's easy to see ahead 25 years,

but it's not easy to see ahead for the next two or three years." He adds, "all the economics say that we should go nuclear in the future, but we have to be able to raise the money."

For Edward G. Bauer, Vice President and General Counsel, the assorted crises of 1974 meant focusing on the regulatory commissions. "Our number one concern has been getting rate relief." He also deals with the environmental agencies—and thinks they are becoming a bit more responsive on power problems. "After all, no one wants to see a no-growth economy go on."

The Jump is Big

Philadelphia Electric has plant assets of roughly \$4 billion. One plant, the Limerick plant, now going ahead on the Schuylkill River near Pottstown, will cost at least \$1.7 billion. The cost of the big nuclear plants has escalated as construction costs and interest rates have soared. "This may seem to be a new dimension for us but, if you look back in the past, you see similar jumps," Everett says.

The Limerick plant has been delayed until perhaps 1981. "The delays are uneconomic—a year's delay may easily cost \$100 million."

But, Everett has a basic optimism. "With a little stability in the economic system, particularly if long-term interest rates come down to, say, 8 percent, we can live with the problems."

Utility Financing

John H. Austin, Jr., Vice President for Finance and Accounting, sees the financing problem in sharp focus: "Our problem is the fundamental problem facing the nation—inflation and economic stagnation. Our ab-

solutely prime question for 1975 is where and how we can raise the equity money—new capital from shareholders—we need. I think the bond markets may be able to supply the debt capital we will need in the year, although it may be very expensive. The question facing us, and facing much of the industry, is whether the markets will be able to supply the needed equity capital—at feasible costs."

Year of Rebuilding

As Austin sees it, 1975 will be a year of rebuilding. The increase in rates at the beginning of 1975 stopped the steady erosion of earnings. It was delayed so long, though, that earnings per share—\$1.81 for the year 1974—fell far too low. Important as the rate increase is, it will not quickly bring earnings up to a healthy level. That will require a resumption of growth in sales and continuing close control of construction and operating costs.

For several years, Austin has targeted \$2.50 a share as reasonable earnings. The Pennsylvania Public Utility Commission has repeatedly allowed the Company a rate of return to produce \$2.50 a share, but because of inflation and regulatory lag the Company has not actually realized this return. Now that minimum goal is more urgent than ever—because the costs of raising capital are so much higher than they were a year ago. The Company sold \$100 million in debentures on January 7, 1975 at an interest rate of 12-3/4 percent. So, \$2.50 a share "now becomes a floor for which we must strive"—and more than ever the key to the Company's ability to grow.



James L. Everett, President

The Year 1974

Looking back, 1974 seems the year in which everything financial that could possibly go wrong, did. The energy crisis reduced growth and revenues; costs and particularly interest rates soared, and the financial markets fell into disarray. P.E. made a series of moves in reaction. It cut costs, postponed a new stock issue in the fall to avoid jeopardizing the position of its existing shareholders, and cut its construction program for 1974 and 1975 by about \$200 million.

"We were fortunate," says Austin. "Conservative financial policies really paid off in 1974. They meant that we came through the year pretty well. We had some damage, but no real scars." To an outsider, the record looks better than that. The Company maintained its dividend and a reasonable cash position.

Future Planning

But, inflation complicates future planning. With prices of capital equipment and construction rising, the Company needs to raise more and more capital in the markets. At the same time, inflation cuts into the Company's ability to raise cash internally. "As long as we have inflation, we'll have to have rate increases," says Austin.

P.E. has tailored its construction program to what it can afford and has aggressively sought rate increases to support the new capital investments. "We won't spend money that we can't get," says Austin. The rate increase in January made it possible to again raise capital in the debt markets. P.E. hopes to keep its construction going at a rate of about \$500 million a year after 1975. No



Construction of the Limerick Generating Station progressed during 1974.

SECURITIES SOLD DURING 1974

JANUARY

Mortgage Bonds	
8½% series, due 2004	\$125 million

APRIL

Preferred Stock	
9.50% series	
750,000 shares	\$ 75 million

MAY

Five-year Bank Note	
due 1979	\$125 million

OCTOBER

Mortgage Bonds	
11% series, due 1980	\$125 million

In addition, the Company received proceeds of \$11.2 million through its dividend reinvestment and employee stock purchase plans.

Financing for 1975 began on January 7 with the sale of \$100 million of 12¾% debentures maturing in 6½ years. Present plans call for the sale of mortgage bonds, common stock and industrial revenue bonds, subject to market conditions.

one likes to think of the possibility that it may have to be again curtailed by financial necessity, but if that's necessary, it will be.

"As for the future, we have to respond to conditions as they are—and to act to preserve the capital of our shareholders and to assure our customers power for the future.

"We'll do what we can to manage the problems and, hopefully, look forward to better times."



John H. Austin, Jr., Vice President, Finance and Accounting



A welder at the Company's Oregon Maintenance Shop repairs a cooling tower pump impeller.

Landmark Year

For the men who run the big electric plants, 1974 was a landmark. Peach Bottom Nuclear Units 2 and 3, built together over the last six years on the Susquehanna River, nine miles above the Conowingo hydro plant, came on line. (Peach Bottom 1, a small prototype unit, was phased out late in 1974 after proving the concept of high temperature gas-cooled reactors by seven years of successful operation.)

The two generating units have a capacity of more than one million kilowatts each. They are baseload units, designed to run day in, day out, meeting the basic power needs of the area. Philadelphia Electric designed and built the plant, but shares ownership with other utilities. As a result, the Company's 42 percent ownership is currently enough to meet about 25 percent of the Philadelphia area's usage.

Peach Bottom brought an immediate reduction in fuel costs. About half of P.E.'s capacity is now oil-fired—and the five-month boycott by the Arab countries in the winter of 1973-74 almost tripled oil costs. When the Peach Bottom units came on, their fuel costs were one-fourth those of coal, and about one-tenth of the cost of oil resulting in significant savings.

The plant also meant a fundamental reduction in the area's dependence on imported oil. In a year, it saves the equivalent of one billion gallons of oil. Philadelphia Electric came through the winter of 1973-74, the peak of the energy crisis, without having to curtail power to any customer, but the availability of oil was an overriding concern.

Generating Capacity Increased

With the big nuclear plant, and with a new Croydon plant and other additions, P.E.'s capacity in 1975 is about 7,800 megawatts. Croydon Station, north of the city, has combustion turbine generators with a regenerative cycle which yields higher efficiencies. The plant was designed to meet peak loads—those summer days when air conditioners run all out. However, it is almost as efficient as the big fossil-fueled base load plants.

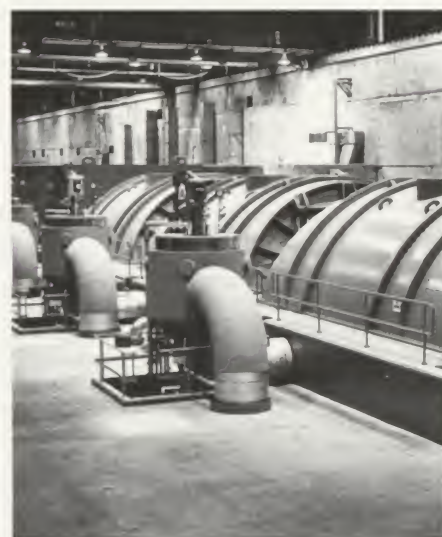
John L. Hankins, Vice President of Electric Production, has spent his life in power plants and says, "The nuclear plants will make my life a lot easier." In fact, he sees them as the answer for the 1980's and 1990's. They are more thoroughly engineered, and quieter and cleaner than conventional plants. The technology is new, so there's a possibility of improving efficiency—where the fossil plants may be reaching their limits.

The Peach Bottom plants raise P.E.'s productivity. They meant, for one thing, that P.E. was able to retire old equipment at five plants—some of which had been running forty years and was costly to operate. That, along with customers' efforts to conserve power, meant changing work assignments for many employees.

Air Quality Controls

Some of the antipollution activities—whose costs are now becoming important—come under Hankins. Eddystone, the Company's largest coal-fired plant, is testing a "scrubber." It is in itself a large chemical processing plant, designed to remove sulfur dioxide from stack gases. If

it works reliably, more scrubbers will be added at Eddystone and at the Cromby coal plant—at a total cost now estimated at \$68 million.



Turbine generators producing electricity from nuclear energy at the Peach Bottom Atomic Power Station.



John L. Hankins, Vice President, Electric Production

Water Temperature Controls

Peach Bottom uses river water for cooling purposes. It flows from the plant through three long banks of towers designed to diffuse heat into the air. The effectiveness of the towers depends on the temperature and humidity of the air. The water then flows into the river. It may heat the surface waters near the plant by 5 degrees—perhaps more.

It's hard to know how much more—prediction and evaluation are difficult because sun, wind, and flow of water vary. But, state law places strict limitations on increases in temperature.

NET GENERATING CAPACITY

(KILOWATTS) DECEMBER 31, 1974

Nuclear.....	926,000
Coal Fired.....	1,499,000
Oil Fired.....	2,301,000*
Combustion Turbines (Oil)...	1,689,600
Hydro.....	512,000
Pumped Storage.....	880,000
Total in Service.....	<u>7,807,600</u>

PLANNED ADDITIONS

Nuclear (1976-1986).....	5,598,000
Oil Fired (1976).....	400,000
Fuel Cells (1980-1981).....	52,000
Total Planned.....	<u>6,050,000</u>

*869,000 kilowatts can be converted to coal firing.



Water discharged from P.E. power plants is constantly analyzed to protect the environment.

The question, of course, is the effect of temperature increases on the fish in the river and, as President Everett says, "We may actually be giving the fish a better life."

But, P.E. is working with regulatory authorities in assessing the effects of increased temperatures on fish life. Additional temperature control equipment may be required. The costs of this equipment, of course, in the end would have to be borne by electric consumers. So, we have one of those intricate problems in balancing dollars on electric bills against a more meaningful life for the fish in the Susquehanna River.

Looking Ahead

Vincent S. Boyer, Vice President, Engineering and Research, has to keep his eyes on the future. He and his people have to plan the new facilities—generating stations, transmission lines, distribution systems—that will meet Philadelphia's ever changing needs for at least the next ten years. They engineer the equipment, build the plants, worry about environmental concerns—and fit it all into a budget.

Here is the question of energy sources. A nuclear plant is environmentally clean and produces low-cost power—but it takes five to seven years to build and its capital costs are high. Of Limerick's \$1.7 billion cost, the largest single item, more than reactors or generators, will be the cost of money. Interest that must be paid during the years of construction may be one-fourth of the

total cost of the plant. So, a nuclear plant is a long-term investment—and very vulnerable to delays which add to cost. Once on the line, though, it produces major savings.

The alternative—in these years when P.E. is testing scrubbers for the coal plants—is oil. Small oil-fired turbine plants—powered by turbines like those in jet aircraft—are low-cost and can be built in a year or two. But, they're costly to run. "If we had to rely on them," says Kemper, "Our customers' bills would go out of sight."

Looking at the alternatives, Boyer concludes that, "Holding rates to a depressed level and forcing a curtailment in our nuclear construction program is false economy in the long run."

Philadelphia Electric will always need oil plants to help meet peak loads. But, Boyer thinks nuclear plants are the basic answer to the energy crisis, and he sees major savings possible in building them. The thousand megawatt unit—the size of the Peach Bottom and Limerick units—is a "reasonable package." There can be major savings in standardizing design and buying standard components, such as turbines and generators.

To Kemper, there's no question on economics. Better engineering and planning, learning how to build the plants faster, can bring down costs sharply. But, in any case, he says, operating an oil-fired plant the size of Limerick would cost the rate payers \$200 million more a year—and a coal-fired plant at least \$100 million—more for fuel. Fossil fuel costs will not only change more than nuclear, but represent a greater portion of the total cost per kilowatt-hour. "Furthermore, we have contracts now for the nuclear fuel we'll need for years ahead."



Vincent S. Boyer, Vice President, Engineering and Research



Construction of a new oil-fired generating unit at Eddystone Station.



Air quality control equipment being installed at the coal-fired generating unit at Eddystone Station.



Designers draw up plans for the continued expansion and improvement of Company facilities.



Natural gas is liquefied and up to 1.2 billion cubic feet is stored at the West Conshohocken gas plant.

Natural Gas Supply

The shape of the future is the problem of the day in Philadelphia Electric's Gas Operations.

Many customers depend on gas—163,000 who use it for home heating, 90,000 who use it for other residential purposes and 20,000 who use it for industrial and commercial businesses.

But, the Company has been curtailed in its supplies of gas since 1972. It has not been able to contract for new customers since then. It has cut down gas use, partly by restricting industrial users who can switch to other forms of energy. It has filled part of the gap by manufacturing gas from propane or from petroleum, high-cost alternatives.

For the winter of 1974-75, the pipeline companies which provide the basic supply, curtailed Philadelphia Electric by 27 percent.

Alternatives to Natural Gas

Vice President Martin F. Gavet, and his staff, spend much of their time looking for alternative supplies. "We've tried to buy more propane," he says, "but it's even in shorter supply than natural gas." They put everything they can into underground storage in the summer months to meet the winter's demands. They have reactivated an old plant, the Tilghman Street plant in Chester, built in the 1920's to make high-Btu gas from petroleum.

By January, 1975, though, the supply problem had become critical. Philadelphia Electric had to curtail gas service to four large industrial customers by 27 percent. Gavet expects that he will again have to curtail industrial customers in the summer. "Gas supply is going to be so short

that we'll have to store all that we can in the summer months to meet next winter's demand."

Gas Operations people have been trying for years to develop improved ways of making gas from petroleum. They've been working with another company, to develop a synthetic gas plant. It would produce 75 million cubic feet of pipeline quality gas a day. But, it would require over 1.2 million gallons of crude oil a day.

Gavet is also exploring the possibility of a plant to make synthetic gas from naphtha. But, neither Philadelphia Electric, nor its partners in these ventures can find a supplier who would guarantee the required volumes of either crude oil or naphtha.

The best prospect for increasing Philadelphia's supply of natural gas is government action to raise, or even to completely deregulate, the price of natural gas at the wellhead. That might mean larger supplies fairly quickly. It would also raise costs, but that seems inevitable. Synthetic gas, made from petroleum, would probably cost four times what natural gas now does.

Beyond that is the prospect of gas from offshore drilling along the Atlantic Coast. That, clearly, is many years off. It may be possible, too, to commercially synthesize gas from coal, but Gavet expects it will be 1985 before that can be tested, and the plants built.



Gas from the storage tank is vaporized to meet heavy customer usage during the winter heating season.



Martin F. Gavet, Vice President, Gas Operations

The Growth Question

For people who always have to look far ahead, the rate of growth became a puzzler in 1974. There will be growth, simply because people's needs will grow.

As William B. Morlok, Vice President of Commercial Operations, sees it: "When you look at the long-run—not this year or next, but over the next decade—our best estimates are that we will grow about 6 percent a year.

"Much of this growth will come from home heating. That's where we will feel the first effects of the switch to an electric economy. We're connecting up about half of the new homes and apartments in our area now. Gas is in very short supply, as you know.

"Growth will also come from industrial users. Electricity is often the most efficient form of energy for them.

"Some growth will come as people try to catch up on labor-saving devices. For example, some 27 percent of our residential customers do not have a washing machine, 62 percent do not have a clothes dryer. In fact, 30 percent of the households we serve have no air conditioning.

"Population growth is a big factor—in a way that people never think about.

"If you look back, you'll see that this country reached the peak of the post-war baby boom in the middle 1950's. Well, those babies are growing up now. We expect an additional 30,000 adults will come into the Philadelphia area work force each year in the next ten years. They'll need homes and jobs—and both depend on electricity. If we cannot give them electricity, they won't have much of

a future in store for them.

"There's another paradox. The shift to an electric economy is not going to be overwhelming. We have been looking ahead, and adding in everything of the electric economy that looked reasonable. Even with it, our growth rate may decline after the next ten years.

"Remember, we'll be coming up to the saturation point in the use of many appliances. But far more basic, there's a lot of economy in the electric economy. Many of the ways people use electricity will be done more efficiently, such as for refrigerators, air conditioning, lighting and new industrial processes. We also think people are becoming very conservation-minded. We see some of them shifting to smaller houses and apartments now."

Performance

How is Philadelphia Electric meeting its challenges?

One thing that runs through the Company is pride in a long history of

finding ways to do the job better. From the time it was put together, Philadelphia Electric has been increasing its efficiency. It was generally lowering rates until the effects of inflation forced the Company to seek a rate increase in December 1968. Now, nuclear plants promise new efficiency.

Wayne C. Astley, Vice President, General Administration, is formally putting together goals and objectives of the Company. Some of these—to provide reliable service, reasonable rates, and be responsive to customers—have been general policy for years. Other objectives for individual departments, may be new. The hope is to give guidelines—on paper—against which results can be judged.

Power Pooling

Astley is also looking for new efficiencies through PJM, the Pennsylvania-New Jersey-Maryland Interconnection. It is made up of eleven companies over an area running from Erie, Pennsylvania, to Washington, D.C. They operate as one system, meeting emergencies and peak loads together. But, one basic idea is to make the most efficient use of more than 500 generating units in the system.

He's also looking ahead—to see that P.E. and its partners in PJM have the capacity to meet the needs of the whole area. This year's construction cutbacks, for example, were general among utilities. So far, though, there is no threat of a general shortage of power in the PJM system.

But, as Astley says, "You have to watch everything all the time. It's the way to do a better job."



The new Federal Reserve Bank of Philadelphia under construction on Independence Mall West.

Reliable Electric Service

William L. Maruchi, Vice President of Electric Transmission and Distribution, has the Company's largest department in number of employees—over 2,400 people. They move the energy from the generating plants to the customers—and pride themselves on maintaining a high level of reliability for electric service throughout the system. Whenever storms or other causes disrupt service, T. and D. people respond immediately to put things back together again.

This year he hasn't had to worry only about storms, but also about money. "We don't do a thing that isn't essential."

In summing up 1974, he says, "Our problem has been to match people with work load." He's had less work for his crews because of a slow-down in construction of homes, slackening of new commercial and industrial customer activity, less highway work and curtailment of long-range distribution voltage conversion programs.

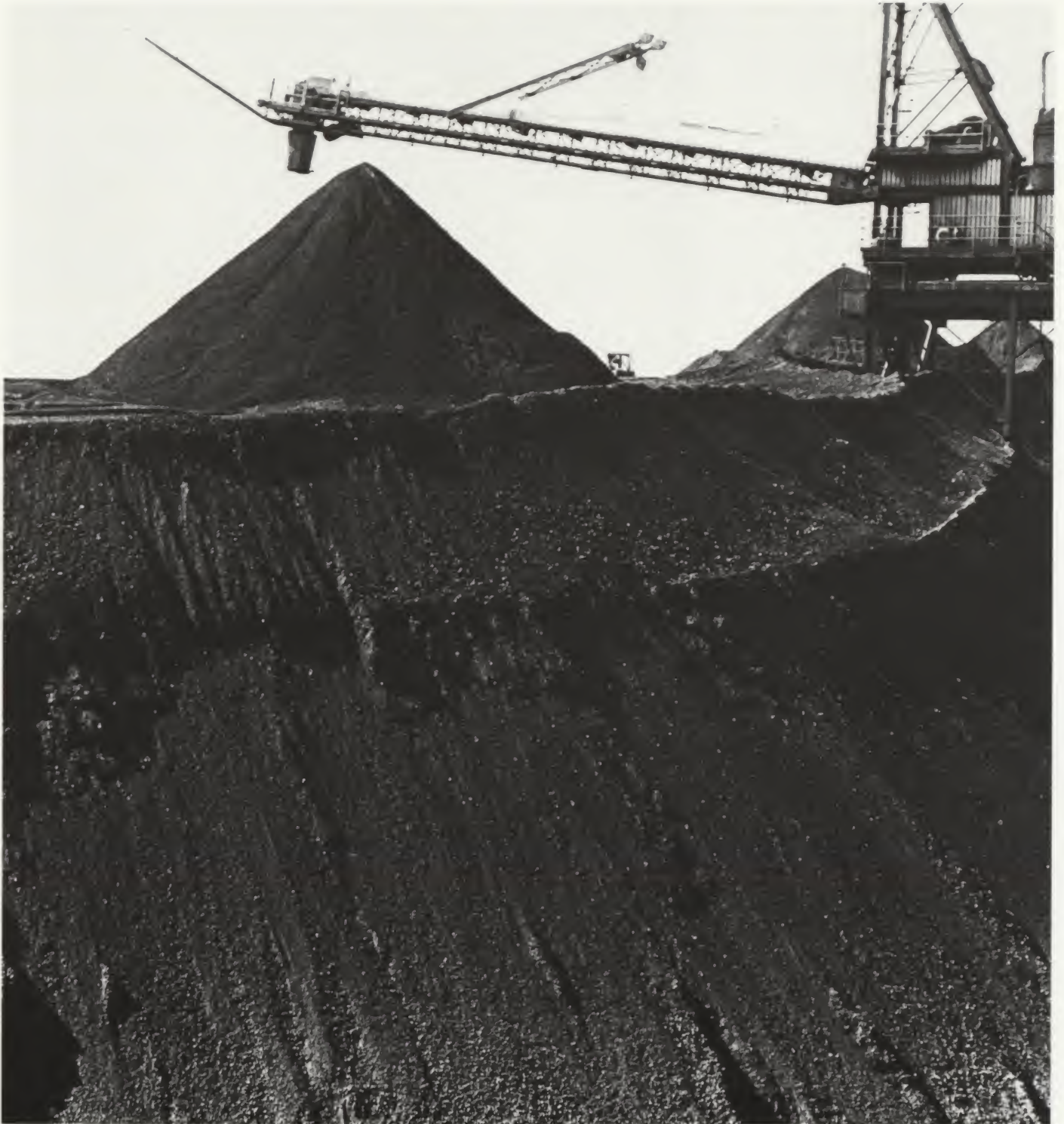
One answer was to train P.E. personnel for such services as tree trimming, major underground construction work, landscaping, etc. Many linemen are now trimming trees—an essential activity to achieve the departmental objective of supplying reliable electric service—and they're doing it in such a way as to retain the high level of customer acceptance. Other linemen—the very symbol of an electric utility—are now working on underground construction; and reassignments are not limited to line forces. For some of P.E.'s people, the change was difficult, but changes kept all of P.E.'s family together.



Lineman makes repairs to distribution equipment to insure reliable electric service.



New assignments for linemen include landscaping of Company facilities.



Coal, one of the nation's more abundant natural resources, is an important source for P.E.'s power generation.

Future Outlook For Fuels

For Clair V. Myers, Vice President of Purchasing and General Services, 1974 meant a basic shift. "A year ago, we were concerned primarily about availability—simply getting enough coal and oil to keep operating. Now, our concerns have shifted to getting these fossil fuels at a reasonable price."

Part of the problem is quality. "Our coal plants were designed to burn a high-quality, low-ash coal. We have difficulty locating supplies of really good quality coal."

When he looks ahead, Myers expects oil and coal prices may come down slightly from the spot-market level of 1974, but the questions of supply, particularly of getting enough coal and low-sulfur Middle East oil, are very troubling.

Apart from the fuel supply problems, when he looks at the way P.E. people are stretching their dollars now, Myers says, "We can speak loud and clear. We're proud of our employees and their proven conservation efforts in all internal operations."



Fuel oil is pumped from barges to storage tanks at Croydon Station for use in new combustion turbine generators.



Clair V. Myers, Vice President, Purchasing and General Services

Our Men & Women

In the end, all problems are inter-related, and they all come back on P.E. people. For Henry T. Bryans, Vice President of Personnel and Public Relations, the problems get bigger every year. When someone from Gas Operations is transferred to electric metering work, Personnel gets involved.

"Our people are our best asset. We have a group that you can't beat, especially in an emergency. Whenever our customers' service is interrupted—due to a storm or equipment failures—our men and women come through, they sure do. They're our ace in the hole."

"In these times, when the whole economy is changing, we're going to have to do much more in transferring people between departments and in retraining them. More of our people may be involved in changes, but we'll work them out with the cooperation of everyone."

Everett echoes that feeling about people. "We have a fine group of men and women with a high *esprit de corps*. Some people may hate the Company, but they love the employees—and after all, that is the best test of our services."

Public Understanding

Under his other hat, Public Relations, Bryans deals with a tough problem. "We get a lot of flak on rate increases—and understandably so, when everyone is pressed for money. We're doing everything we can to make people see that we need the money to build for the future."

He thinks a moment and then adds, "We're trying hard now—but we've got to find a lot of new and better ways of building understanding."

It takes a variety of skills to serve more than 1,400,000 customers.



Answering customer inquiries.



Nuclear power plant operator training.



Maintaining equipment.



Installing underground cables.



Servicing de-energized lines.

A Perspective

The Chairman, Robert F. Gilkeson, looks at all this and finds a perspective. "We live on the edge of a cliff, and we always have. There's never been a time when we didn't have real problems.

"We've had hard times before, certainly we did in the depression years. We've made big jumps before. When the Company built the Conowingo hydro plant in 1926 and 1927, some of the people thought it would break the Company's back. As a hydro project, it was second in size only to Niagara.

"Then we built Richmond #12 in the depression years—one of the biggest generators in the world then. That looked like a big jump to the people here then, I'm sure.

"Now the problems involve national policies and even international developments. But, we've solved problems before. We've always solved problems in the past. I don't see any reason why the future will be any different.

"You might say, we're used to living on the edge of the cliff."

1974 FINANCIAL AND STATISTICAL INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS

Operating revenue rose \$82 million in 1973, aided by increased electric sales and \$55 million of rate increases. Although energy saving measures by our customers resulted in decreased sales for all classes of service in 1974, revenue continued to rise reaching \$1 billion or \$245 million above 1973. Fuel adjustment revenue required to recover increased fuel costs amounted to \$213 million and rate increases accounted for \$45 million.

Fuel, other operation and maintenance expenses rose by \$64 million in 1973 and \$195 million in 1974, reflecting a severe escalation of oil and coal prices and the impact of inflation on every aspect of our business. Fuel and interchange expenses increased \$48 million in 1973 and \$179 million in 1974. Due to the rapid increases in fossil fuel expense in 1974, the Company began, effective January 1, 1974, to defer the charging of fuel expenses to operations until they are recovered in fuel adjustment revenue two months later in order to more properly match

expenses and revenues.

Depreciation expense rose over \$13 million in 1974 reflecting the partial year effect of placing almost \$650 million of new facilities in service during the year.

Taxes charged to operations increased \$9 million in 1973 and \$32 million in 1974. Of particular significance in 1974, the Company accrued \$49 million of deferred income taxes as a result of normalizing the tax reductions resulting from liberalized depreciation and the investment tax credit. This provided an increase of \$36 million in cash flow over 1973. Gross receipts tax paid to the Commonwealth of Pennsylvania amounted to \$33 million in 1973 and \$43 million in 1974, an increase of \$10 million primarily due to taxes on increased fuel adjustment revenue.

Allowances for Funds Used During Construction amounted to \$59 million and \$71 million respectively in 1973 and 1974 on average Construction Work in Progress of \$0.9 billion and \$1.1 billion in these years. Income tax reductions, credited to Other Income

amounted to \$3 million in 1973 and \$25 million in 1974. Allocation of these tax credits to Other Income began on October 1, 1973, pursuant to a Pennsylvania Public Utility Commission order, and represents an additional source of cash flow. Interest charges and Preferred Stock dividends continued to climb rapidly, increasing \$19 million in 1973 and another \$36 million in 1974 because of higher interest rates and the Company's need for substantial amounts of new capital to finance its construction program.

Earnings available for Common Stock in 1974 remained essentially the same as in 1973. Due to the sale of more than 7.5 million shares of Common Stock in 1973 and nearly 950,000 shares in 1974, the average number of shares outstanding increased 10 percent in 1974, resulting in a decline in per share earnings from \$1.99 in 1973 to \$1.81 in 1974. Despite this decline in earnings, dividends were maintained at \$1.64 per share.

CONSOLIDATED STATEMENT OF INCOME

Philadelphia Electric Company and Subsidiary Companies

		For the Year Ended December 31	
		1974	1973
		(Thousands of Dollars)	
Operating Revenue	Electric	\$ 873,474	\$ 646,758
	Gas	108,929	100,508
	Steam	29,323	19,392
	Total Operating Revenue	<u>1,011,726</u>	<u>766,658</u>
Operating Expenses	Fuel and Energy Interchange	439,231	260,294
	Other Operation Expense	145,415	132,435
	Maintenance	61,971	58,742
	Depreciation	77,802	64,271
	Taxes, Other than Income	67,143	57,353
	Taxes on Income	67,157	45,140
	Total Operating Expenses	<u>858,719</u>	<u>618,235</u>
Operating Income		<u>153,007</u>	<u>148,423</u>
Other Income	Allowance for Funds Used During Construction	70,841	58,743
	Income Tax Credits, net	25,441	3,374
	Other, net	271	2,643
	Total Other Income	<u>96,553</u>	<u>64,760</u>
Income Before Interest Charges		<u>249,560</u>	<u>213,183</u>
Interest Charges	Long-Term Debt	106,298	84,837
	Short-Term Debt	14,165	5,479
	Total Interest Charges	<u>120,463</u>	<u>90,316</u>
Net Income		<u>129,097</u>	<u>122,867</u>
Preferred Stock Dividends		<u>33,682</u>	<u>27,600</u>
Earnings Applicable to Common Stock		<u>\$ 95,415</u>	<u>\$ 95,267</u>
Shares of Common Stock-Average		52,716,813	47,846,776
Earnings Per Average Share (Dollars)		\$1.81	\$1.99
Dividends Per Share (Dollars)		\$1.64	\$1.64

The notes and schedules to financial statements are an integral part of this statement

Philadelphia Electric Company and Subsidiary Companies

* Reclassified for comparative purposes.

The notes and schedules to financial statements are an integral part of this statement.

CONSOLIDATED BALANCE SHEET

Philadelphia Electric Company and Subsidiary Companies

		<u>December 31</u>	
		1974	1973*
		(Thousands of Dollars)	
ASSETS			
Utility Plant, at original cost			
Electric	\$2,807,956	\$2,179,254	
Gas	265,728	261,727	
Steam	42,256	41,998	
Common, used in all services	114,796	111,842	
Construction Work in Progress	893,161	1,077,312	
	4,123,897	3,672,133	
Less: Accumulated Depreciation	717,808	665,425	
	<u>3,406,089</u>	<u>3,006,708</u>	
Nonutility Property and Other Investments		12,701	11,474
Current Assets			
Cash	15,986	16,173	
Pollution Control Funds	—	12,239	
Accounts Receivable			
Utility Customers	92,621	58,054	
Merchandising and Jobbing	9,932	10,397	
Other	9,335	7,178	
Refundable Federal Income Taxes	18,089	—	
Deferred Fuel Expense	21,655	—	
Materials and Supplies, at average cost			
Operating and Construction	25,830	22,654	
Fuel (Coal and Oil)	46,667	17,564	
Prepayments	3,085	3,764	
	<u>243,200</u>	<u>148,023</u>	
Deferred Debits		6,036	9,858
Total		<u>\$3,668,026</u>	<u>\$3,176,063</u>

The notes and schedules to financial statements are an integral part of this statement

LIABILITIES

		December 31	
		1974	1973*
		(Thousands of Dollars)	
Capitalization	Stockholders' Equity		
	Preferred Stock—See Schedule, page 27	\$ 486,383	\$ 412,020
	Common Stock—See Schedule, page 27	782,916	771,765
	Other Paid-In Capital	1,306	1,244
	Retained Earnings	293,747	286,230
		<u>1,564,352</u>	<u>1,471,259</u>
	Long-Term Debt—See Schedule, page 27	1,597,690	1,319,141
		<u>3,162,042</u>	<u>2,790,400</u>
Current Liabilities	Short-Term Debt		
	Bank Loans	115,100	83,500
	Commercial Paper	62,824	64,232
	Accounts Payable	66,125	55,961
	Taxes		
	Accrued	16,512	18,126
	Deferred	11,471	—
	Interest Accrued	30,462	21,870
	Dividends Declared	12,694	11,403
	Current Maturities of Long-Term Debt	91,866	67,328
	Other	3,859	5,476
		<u>410,913</u>	<u>327,896</u>
Deferred Credits	Accumulated Deferred Income Taxes	56,533	39,692
	Accumulated Deferred Investment Tax Credits	32,551	11,860
	Other	4,645	1,760
		<u>93,729</u>	<u>53,312</u>
Operating Reserves		1,342	4,455
	Total	<u>\$3,668,026</u>	<u>\$3,176,063</u>

* Reclassified for comparative purposes.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Philadelphia Electric Company and Subsidiary Companies

	For the Year Ended December 31	
	1974	1973
	(Thousands of Dollars)	
Balance, January 1	\$286,230	\$270,971
Net Income (from page 20)	129,097	122,867
	<u>415,327</u>	<u>393,838</u>
Cash Dividends Declared		
Preferred Stock	34,272	28,056
Common Stock	86,458	78,350
Expenses of Capital Stock Issues	850	1,202
	<u>121,580</u>	<u>107,608</u>
Balance, December 31	<u>\$293,747</u>	<u>\$286,230</u>

The notes and schedules to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS—Thousands of Dollars

1. Significant Accounting Policies:

General: All utility subsidiary companies of Philadelphia Electric Company are wholly-owned and are included in the consolidated financial statements. The accounts are maintained in accordance with the uniform system of accounts prescribed by the regulatory authorities having jurisdiction.

Revenues: Revenues are recorded in the accounts upon billing to the customer. Rate increases are reflected in revenues and billed from dates authorized or permitted to become effective by regulatory authorities. The revenues billed under rate increases permitted to become effective pending final approval of the regulatory authorities are subject to possible refund.

Fuel Expense: Effective January 1, 1974, the Company adopted an accounting practice of deferring that portion of fossil fuel expense which is recoverable under an Electric Fuel Adjustment Clause until it is billed as fuel adjustment revenue approx-

imately two months after it was incurred in order to effect a better matching of fossil fuel expenses with related revenues. For income tax purposes, fossil fuel expense is considered an expense when incurred. The resultant tax deferrals are normalized and classified as a current liability.

The deferral of recoverable fossil fuel costs until billed to customers under the Electric Fuel Adjustment Clause had the effect of increasing earnings (net of taxes) by \$0.19 per share for 1974. Prior to 1974, the Company experienced relative stability in unit fuel costs and accordingly the effect on operations in prior years of the deferred fuel expense method would have been immaterial.

The Company's share of nuclear energy costs, since beginning commercial operation of Peach Bottom Units 2 and 3 in July and December, 1974, respectively, has been charged to fuel expense on the basis of the number of units of thermal energy produced as they relate to the total thermal units to be produced over the

estimated four year life of the fuel.

Depreciation: For financial reporting purposes, depreciation is provided over the estimated service lives of the plant on a straight-line basis. Higher depreciation deductions are taken for tax purposes based on the use of a liberalized method of computing depreciation and of shorter lives permitted by the Internal Revenue Service. Prior to 1971 the resultant tax deferrals flowed through to income; however, beginning in 1971 the Company normalizes the effect of the tax deferrals resulting from the liberalized method of computing depreciation and shorter lives on current property additions which increase capacity, in accordance with the regulatory treatment for rate-making purposes. These tax deferrals will be credited to income in years when depreciation expense for financial reporting purposes exceed that deductible for tax purposes.

Investment Tax Credit: Federal income tax expense reflects reductions for investment tax credits which were deferred by equivalent charges to in-

come and subsequently amortized by credits to income over a five-year period for credits deferred prior to 1971 and over the estimated useful life of the plant for credits thereafter.

Allowance for Funds Used During Construction: Allowance for funds used during construction, an item of non-utility income, is defined in the applicable regulatory system of accounts as "the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate upon other funds when so used." The allowance is included as a cost of construction in the plant accounts and as "Other Income" in the Consolidated Statement of Income for financial reporting purposes; however, for income tax purposes, the allowance is not included in taxable income. The effect on income taxes, to the extent not offset by a related reduction in depreciation expense for tax purposes, is reflected in income. In conformance with an order of the Pennsylvania Public Utility Commission (PUC) whereby income tax reductions arising from interest charges associated with debt used to finance construction are allocated to nonutility income, the rate was reduced from 8 percent to 7 $\frac{1}{2}$ percent, representing a "net after-tax rate" on October 1, 1973 and subsequently increased to 7 $\frac{3}{4}$ percent on July 1, 1974. Income tax reductions allocated from operating expenses to other income, as income tax credits, were \$25,135 for 1974 and \$4,748 for October through December, 1973.

The estimated portions of the allowance attributable to funds provided by common stock equity were equivalent to 16 percent in 1974 and 21 percent in 1973 of earnings applicable to common stock.

Retirement Plan: The Companies have a noncontributory service annuity

plan applicable to all regular employees. The annuities are determined under a formula which is applied uniformly to all employees regardless of position, and the amount depends on length of service and compensation earned to normal retirement age. The annuities are paid out of an irrevocable trust fund, to which the Companies make contributions to fund current and prior service costs. (See Note 7)

2. Taxes, Other than Income:

	1974	1973
Gross Receipts	\$43,407	\$33,129
Capital Stock	9,677	10,595
Realty	7,636	7,138
Other, principally social security	6,423	6,491
	<u>\$67,143</u>	<u>\$57,353</u>

3. Taxes on Income:

Applicable to operations:

	1974	1973
Federal income	\$10,986	\$24,335
State income	7,167	7,608
Deferred income, net	28,313	9,601
Investment tax credits, net	20,691	3,596
	<u>67,157</u>	<u>45,140</u>
Applicable to other income	(25,441)	(3,374)
Total income tax provisions	<u>\$41,716</u>	<u>\$41,766</u>

The aforementioned income tax provisions are equivalent to effective income tax rates for financial reporting purposes which were less than the federal statutory rate due to differences between tax and book income as follows:

	1974	1973
Federal statutory rates	48.0%	48.0%
Incr. (decr.) in Effective tax rate due to:		
Allowance for funds used during construction	(19.9%)	(17.1%)
Excess of tax depreciation over book depreciation not normalized	(2.8%)	(4.9%)
State income taxes, including portion deferred, net of federal income tax benefits	3.8%	3.6%
Amortization of investment tax credits	(1.5%)	(1.0%)
Other miscellaneous differences	(3.2%)	(3.2%)
Effective income tax rates	<u>24.4%</u>	<u>25.4%</u>
Provisions for deferred income taxes consist of the following tax effects of differences between tax and book income:		
	1974	1973
Tax depreciation in excess of book depreciation	\$18,307	\$10,707
Deferred fuel expense	11,471	—
Other, principally tax amortization of plant pursuant to certificates of necessity	(1,465)	(1,106)
	<u>\$28,313</u>	<u>\$ 9,601</u>

4. Nuclear Fuel:

In 1973, the Company, as the operating company of the Peach Bottom Atomic Power Station Units 2 and 3, jointly owned by the Company (42.49%), Public Service Electric and Gas Company (42.49%), Atlantic City Electric Company (7.51%) and Delmarva Power & Light Company (7.51%), executed a nuclear fuel procurement agreement and a nuclear energy contract with an independent fuel company which will acquire and own up to a maximum of \$120,000 of nuclear fuel at any one time and sell the energy therefrom to the Company until the contract is terminated by the parties. Under a separate agreement, the owners are obligated to bear their proportionate share of all costs under the agreement and contract. The Company's 42.49% share of such nuclear fuel owned by the fuel company amounted to \$46,357 at December 31, 1974.

The Company's share of the nuclear fuel currently being purchased for the Salem and Limerick generating plants under construction, aggregating \$36,198 at December 31, 1974, is included in construction work in progress.

5. Refundable Federal Income Taxes:

Investment tax credits of \$23,221 and \$5,294 applicable to new plant and equipment placed in service in 1974 and 1973, respectively, have been reflected as reductions of federal income tax expense with equivalent amounts reflected in deferred investment tax credits, net. For federal income tax purposes the 1974 investment tax credits will reduce current taxes payable to the extent allowable (\$5,132) and will result in a claim for refund of prior years' federal income taxes (\$18,089).

6. Short-Term Debt:

The average rate of interest on short-term borrowings at December 31, 1974 was 10.5 percent for bank loans and 10.44 percent for commercial paper. The maximum short-term borrowings outstanding during 1974 of \$202,579, occurred as of May 1, 1974. The average short-term borrowings during 1974 aggregated \$118,744 at an average annual rate of 11.13 percent. As of December 31, 1974 the Company had informal lines of credit with banks aggregating \$150,775. The Company generally does not have formal compensating balance arrangements with these banks. The Company maintains deposits with banks for working funds for normal operations.

7. Retirement Plan:

Contributions by the Companies aggregated \$9,856 in 1974 and \$8,638 in 1973. Of such amounts approximately 75 percent was charged to operating expense and 25 percent, associated with construction labor, was included in the cost of new utility plant. Based upon actuarial studies, the prior service costs were approximately \$30,000 in excess of fund assets at cost, on December 31, 1974. Contributions to the fund in 1975 are estimated to be \$14,300 to provide for estimated current costs and amortize unfunded prior service cost over a twenty year period. The Companies' compliance with the Pension Reform Act is not expected to have a significant effect upon presently estimated pension costs for future years.

8. Commitments and Contingent Liabilities:

The Companies have incurred substantial commitments in connection with their construction program. Construction expenditures for 1975 are

estimated to be \$415,000. The Company has a non-cancelable lease agreement for combustion turbine generators with annual rentals of \$2,660 for 6 years and \$4,559 for 15 years. In 1973, the Company entered into a facilities agreement with another utility for the purchase of a share of the capacity and output of certain generating facilities at a monthly rental of \$535 for the period August, 1973 through April, 1975. The Company's commitment for nuclear fuel at December 31, 1974 of \$46,357 (Note 4) is estimated to be charged to operations over a four year period ending in 1978.

Rentals, including nuclear fuel, charged to operating expenses were \$18,539 in 1974 and \$12,549 in 1973.

Minimum lease commitments as of December 31, 1974, under all noncancelable leases are \$18,800 for 1975, \$16,300 for 1976, \$15,900 for 1977, \$14,000 for 1978, \$4,600 for 1979, \$25,600 for 1980-84, \$26,800 for 1985-89 and \$26,400 for 1990-94, and a remainder of \$11,400.

The Company is collecting revenue (\$16,300 through December 31, 1974) subject to possible refund by reason of a \$24,000 electric rate increase which became effective April 1, 1974, representing the first part of a \$136,000 rate increase. In the opinion of Special Counsel for the Company, it is improbable that the PUC will order a refund of any of the revenue billed through December 31, 1974. The remainder, \$112,000 of the rate increase, became effective January 1, 1975 subject to possible refund pending a final order of the PUC.

SCHEDULE OF CAPITAL STOCK—DECEMBER 31, 1974

Philadelphia Electric Company

Preferred Stock (\$100 par) cumulative

Series	Redemption Price (A)	Number of Shares		Amount (Thousands of Dollars)
		Authorized	Outstanding	
9.50% (Sold 1974 at \$100 per share)	\$109.50	750,000	750,000	\$ 75,000
8.75%	110.00	650,000	650,000	65,000
7.85%	108.00	500,000	500,000	50,000
7.80%	108.00	750,000	750,000	75,000
7.75%	108.00	200,000	200,000	20,000
7.325% (Sold 1973 at \$100 per share)	107.03	750,000 (B)	750,000	75,000
7%	107.00	400,000 (C)	389,115	38,911
4.68%	104.00	150,000	150,000	15,000
4.4%	112.50	274,720	274,720	27,472
4.3%	102.00	150,000	150,000	15,000
3.8%	106.00	300,000	300,000	30,000
Unclassified		5,125,280		
Total Preferred Stock		10,000,000	4,863,835	\$486,383
Common Stock—no par (D)		100,000,000	53,329,998	\$782,916

(A) Redeemable, at the option of the Company, at the indicated dollar amounts per share, plus accrued dividends.

(B) 30,000 shares to be redeemed annually at \$100 per share commencing May 1, 1979.

(C) The Company purchased 6,370 shares of 7% preferred stock at an aggregate cost of \$575 in 1974 and applied such shares as a reduction of the Company's sinking fund obligation of 8,000 shares to be redeemed February 1, 1975. The excess of aggregate par value of such shares is reflected in Other Paid-In Capital, (\$62 in 1974 and \$30 in 1973).

(D) The Company sold 949,434 shares for \$11,151 in 1974 and 4,591,494 shares for \$94,284 in 1973. At December 31, 1974 there were 76,453 shares reserved for issuance under the Employee Stock Purchase Plan and 1,008,626 shares under the Dividend Reinvestment Plan.

SCHEDULE OF LONG-TERM DEBT—DECEMBER 31, 1974

Philadelphia Electric Company

First and Refunding Mortgage Bonds:

Series	Due	Amount (Thousands of Dollars)	Series	Due	Amount (Thousands of Dollars)	Series	Due	Amount (Thousands of Dollars)
8%	1975	\$ 80,000	3 1/8%	1983	\$ 20,000	9%	1995	\$ 78,390
6 1/4%	1975-76	19,500	3 1/8%	1985	50,000	8 1/4%	1996	80,000
8 1/2%	1970	46,700	4 1/8%	1986	50,000	6 1/8%	1997	75,000
5 3/4%	1977	34,000	4 5/8%	1987	40,000	7 1/2%	1998	100,000
27 3/4%	1978	25,000	3 3/4%	1988	40,000	7 1/2%	1999	100,000
11%	1980	125,000	5%	1989	50,000	7 3/4%	2000	80,000
2 3/4%	1981	30,000	6 1/2%	1993	60,000	7 3/8%	2001	80,000
3 1/4%	1982	35,000	4 1/2%	1994	50,000	8 1/2%	2004	125,000
Total First and Refunding Mortgage Bonds								1,473,590
Note Payable—Bank	(A)	1979						125,000
Pollution Control Note	5.5%	1975-97						39,000
Sinking Fund Debentures	4.85%	1986						29,373
Unamortized Debt Discount and Premium, Net								(2,467)
Total Philadelphia Electric Company (B)								1,664,496

Philadelphia Electric Power Company—A Subsidiary

First Mortgage Bonds	2%	1975	193
Sinking Fund Debentures	4 1/2%	1995	25,000
Unamortized Debt Discount			(133)
Total Long-Term Debt			1,689,556
Current Maturities included in Current Liabilities			(91,866)
Long-Term Debt included in Capitalization			\$1,597,690

(A) Interest at a rate of 114% of the base rate of the bank on 90-day loans to responsible and commercial borrowers in effect from time to time through May 27, 1976 and at accelerating rates up to 118% of such base rate through maturity.

(B) On January 7, 1975 \$100,000 Philadelphia Electric Company 12 3/4% debentures were sold at a net interest cost to the Company of 12.947%.

REPORT OF ACCOUNTANTS

To Shareholders and the Board of Directors,
Philadelphia Electric Company,
Philadelphia, Pennsylvania

We have examined the consolidated balance sheet of Philadelphia Electric Company and Subsidiary Companies as of December 31, 1974, the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements of the companies for the year 1973.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Philadelphia Electric Company and Subsidiary Companies at December 31, 1974 and 1973, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

1900 Three Girard Plaza
Philadelphia, Pennsylvania
February 7, 1975

COOPERS & LYBRAND

FINANCIAL STATISTICS

Summary of Earnings (millions of dollars)

	1974	1973	1972	1971	1970	1969	1964
Operating Revenue (for details see pages 30 and 31)	\$1,011.7	\$766.6	\$685.0	\$608.1	\$504.4	\$440.5	\$323.9
Operating Expenses							
Labor	134.0	125.6	120.4	108.8	103.0	93.9	70.4
Fuel and Energy Interchange	439.2	260.3	212.0	189.8	137.3	110.0	74.9
Other Materials, Supplies and Services	73.4	65.5	55.0	45.2	42.6	32.2	23.5
Total Operation and Maintenance	646.6	451.4	387.4	343.8	282.9	236.1	168.8
Depreciation	77.8	64.3	60.5	55.9	53.9	49.3	34.6
Taxes	134.3	102.5	93.6	80.8	59.9	53.8	47.0
Total Operating Expenses	858.7	618.2	541.5	480.5	396.7	339.2	250.4
Operating Income	153.0	148.4	143.5	127.6	107.7	101.3	73.5
Other Income							
Allowance for Funds Used							
During Construction	70.8	58.7	42.5	31.7	18.5	7.9	1.3
Income Tax Credits, net	25.5	3.4	(0.4)	(1.7)	0.2	—	(0.4)
Other, net	0.3	2.7	0.2	3.2	—	0.1	0.4
Total Other Income	96.6	64.8	42.3	33.2	18.7	8.0	1.3
Income Before Interest Charges	249.6	213.2	185.8	160.8	126.4	109.3	74.8
Interest Charges							
Long-Term Debt	106.3	84.8	73.4	60.9	50.3	38.2	20.8
Short-Term Debt	14.2	5.5	4.4	6.3	7.7	6.8	1.2
Total Interest Charges	120.5	90.3	77.8	67.2	58.0	45.0	22.0
Net Income	129.1	122.9	108.0	93.6	68.4	64.3	52.8
Preferred Stock Dividends	33.7	27.6	21.6	15.3	8.6	5.9	3.7
Earnings Applicable to Common Stock	95.4	95.3	86.4	78.3	59.8	58.4	49.1
Dividends on Common Stock	86.4	78.4	67.7	60.7	53.7	48.8	36.3
Earnings Retained	\$9.0	\$16.9	\$18.7	\$17.6	\$6.1	\$9.6	\$12.8
Earnings per Average Share (dollars)	\$1.81	\$1.99	\$2.08	\$2.10	\$1.84	\$1.97	\$1.79
Dividends Paid per Share (dollars)	\$1.64	\$1.64	\$1.64	\$1.64	\$1.64	\$1.64	\$1.32
Shares of Common Stock—Average (Millions)	52.7	47.8	41.5	37.3	32.6	29.6	27.5

See page 19 for Management's Discussion and Analysis of the Results of Operations.

Common Stock Prices and Dividends by Quarters

	1974				1973			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High Price	12 ³ / ₄	12 ³ / ₄	18 ¹ / ₄	19 ¹ / ₂	20 ³ / ₈	21 ¹ / ₂	22 ⁵ / ₈	23 ¹ / ₂
Low Price	9 ³ / ₈	9 ¹ / ₄	10	18	17	19 ¹ / ₂	21	21 ¹ / ₂
Dividends	41¢	41¢	41¢	41¢	41¢	41¢	41¢	41¢

Summary of Financial Condition—December 31 (Millions of dollars)

		1974	1973	1972	1971	1970	1969	1964
Assets	Utility Plant, at Original Cost	\$4,123.9	\$3,672.1	\$3,222.6	\$2,851.0	\$2,521.6	\$2,188.6	\$1,489.6
	Less: Accumulated Depreciation	<u>717.8</u>	<u>665.4</u>	<u>624.2</u>	<u>585.7</u>	<u>549.5</u>	<u>514.2</u>	<u>379.2</u>
	Total Utility Plant	3,406.1	3,006.7	2,598.4	2,265.3	1,972.1	1,674.4	1,110.4
	Nonutility Property and Other Investments	12.7	11.5	9.5	6.0	3.9	5.0	11.8
	Current Assets							
	Cash	16.0	16.2	17.8	25.2	24.2	17.0	17.7
	Pollution Control Funds	—	12.2	38.0	—	—	—	—
	Accounts Receivable	111.9	75.6	72.1	63.0	50.8	44.1	32.7
	Deferred Fuel Expense	21.7	—	—	—	—	—	—
	Materials and Supplies	72.5	40.2	38.8	34.2	33.6	29.1	20.3
	Other	21.1	3.8	2.8	2.0	1.8	1.6	1.6
	Deferred Debits	6.0	9.9	7.5	6.6	5.5	4.9	7.9
	Total Assets	<u>\$3,668.0</u>	<u>\$3,176.1</u>	<u>\$2,784.9</u>	<u>\$2,402.3</u>	<u>\$2,091.9</u>	<u>\$1,776.1</u>	<u>\$1,202.4</u>
Liabilities	Preferred Stock	\$ 486.4	\$ 412.0	\$ 337.5	\$ 262.5	\$ 192.5	\$ 127.5	\$ 87.5
	Common Stock	782.9	771.8	622.5	528.2	424.9	365.0	256.3
	Other Paid-In Capital	1.3	1.3	1.2	1.2	1.2	1.2	1.2
	Retained Earnings	<u>293.7</u>	<u>286.2</u>	<u>271.0</u>	<u>254.7</u>	<u>239.5</u>	<u>235.4</u>	<u>169.3</u>
	Total Stockholders' Equity	1,564.3	1,471.3	1,232.2	1,046.6	858.1	729.1	514.3
	Long-Term Debt	<u>1,597.7</u>	<u>1,319.1</u>	<u>1,287.2</u>	<u>1,161.8</u>	<u>1,019.8</u>	<u>848.8</u>	<u>590.2</u>
	Total Capitalization	3,162.0	2,790.4	2,519.4	2,208.4	1,877.9	1,577.9	1,104.5
	Current Liabilities							
	Bank Loans	115.1	83.5	41.1	1.8	14.6	50.1	19.6
	Commercial Paper	62.8	64.2	62.7	47.5	60.9	48.6	—
	Accounts Payable and Dividends Declared	78.8	67.4	49.5	40.7	42.7	30.7	17.9
	Taxes Accrued	16.5	18.1	18.4	22.3	9.4	8.3	16.0
	Taxes Deferred	11.5	—	—	—	—	—	—
	Current Maturities of Long-Term Debt	91.9	67.3	13.5	17.1	33.9	8.5	1.1
	Other	34.3	27.4	23.7	20.7	18.4	16.2	7.4
	Deferred Credits	93.7	53.3	40.8	30.7	20.6	21.4	23.2
	Operating Reserves	1.4	4.5	3.2	1.1	1.8	3.0	3.0
	Contributions in Aid of Construction	—	—	12.6	12.0	11.7	11.4	9.7
	Total Liabilities	<u>\$3,668.0</u>	<u>\$3,176.1</u>	<u>\$2,784.9</u>	<u>\$2,402.3</u>	<u>\$2,091.9</u>	<u>\$1,776.1</u>	<u>\$1,202.4</u>

OPERATING STATISTICS

	1974	1973	1972	1971	1970	1969	1964
ELECTRIC OPERATIONS							
Output (millions of kilowatt-hours)							
Steam	16,649	18,536	20,181	19,849	19,446	20,020	14,263
Nuclear	1,745	176	97	206	137	130	—
Hydraulic	1,938	2,132	2,242	1,738	1,877	1,342	1,088
Pumped Storage Output	1,075	1,318	1,430	1,639	1,829	1,733	—
Pumped Storage Input	(1,515)	(1,876)	(2,018)	(2,302)	(2,523)	(2,395)	—
Purchase and Net Interchange	5,300	7,094	3,472	2,889	2,886	2,293	1,341
Internal Combustion	1,200	688	946	940	744	341	3
Other	1,016	27	1	86	45	5	—
Total Electric Output	27,408	28,095	26,351	25,045	24,441	23,469	16,695
Sales (millions of kilowatt-hours)							
Residential	7,159	7,493	6,856	6,649	6,381	5,812	3,847
Small Commercial and Industrial	2,558	2,663	2,503	2,428	2,365	2,293	1,912
Large Commercial and Industrial	14,622	14,953	14,011	13,296	12,970	12,663	8,749
All Other	1,217	1,192	1,136	1,085	1,097	1,105	1,087
Total Electric Sales	25,556	26,301	24,506	23,458	22,813	21,873	15,595
Number of Customers, Dec. 31							
Residential	1,113,036	1,103,163	1,090,921	1,079,585	1,070,312	1,060,376	968,615
Small Commercial and Industrial	117,237	118,009	118,522	119,203	120,034	120,997	150,427
Large Commercial and Industrial	5,724	5,663	5,645	5,517	5,465	5,359	4,486
All Other	2,248	2,207	2,163	2,130	2,101	2,045	1,899
Total Electric Customers	1,238,245	1,229,042	1,217,251	1,206,435	1,197,912	1,188,777	1,125,427
Operating Revenue (millions of dollars)							
Residential	\$ 314.4	\$ 254.4	\$ 222.7	\$ 198.3	\$ 161.7	\$ 135.0	\$ 92.7
Small Commercial and Industrial	122.0	97.5	88.1	78.6	66.3	58.9	49.6
Large Commercial and Industrial	388.1	257.5	228.6	198.2	158.4	138.2	98.0
All Other	49.0	37.4	35.0	31.6	26.1	23.2	19.3
Total Electric Revenue	\$ 873.5	\$ 646.8	\$ 574.4	\$ 506.7	\$ 412.5	\$ 355.3	\$ 259.6
Operating Income Before Income Taxes (millions of dollars)							
	\$ 196.5	\$ 170.1	\$ 166.1	\$ 141.8	\$ 111.7	\$ 117.5	\$ 94.6
Average Use per Residential Customer (kilowatt-hours)	6,460	6,829	6,317	6,187	5,990	5,557	4,002
Electric Peak Load, Net Hourly Demand (thous. kw)	5,431	5,760	5,313	4,922	4,712	4,592	3,134
Net Electric Generating Capacity (thous. kw)	7,808	6,650	6,348	6,366	5,564	5,115	5,670
Cost of Fuel per Million Btu	142.3¢	71.0¢	61.9¢	59.3¢	40.7¢	32.4¢	29.8¢
Btu per Net Kilowatt-hour Generated	10,676	10,523	10,666	10,782	11,079	11,009	10,409

GAS OPERATIONS

Sales (millions of cubic feet)

	1974	1973	1972	1971	1970	1969	1964
Residential	2,281	2,317	2,418	2,441	2,454	2,376	2,297
House Heating	23,793	24,125	26,026	25,165	24,949	23,403	19,221
Commercial and Industrial	20,076	20,151	20,353	18,743	17,460	16,124	8,032
All Other	545	1,482	2,433	2,537	2,074	2,043	184
Total from Distribution System	46,695	48,075	51,230	48,886	46,937	43,946	29,734
Direct from Pipelines	15,371	16,325	18,808	19,446	20,950	23,685	19,833
Total Gas Sales	62,066	64,400	70,038	68,332	67,887	67,631	49,567

Number of Customers, Dec. 31

Residential	90,870	91,682	94,035	95,478	97,250	98,598	102,684
House Heating	163,093	163,096	159,780	154,902	149,800	145,879	123,493
Commercial and Industrial	20,272	20,518	20,312	19,778	19,063	18,491	19,226
Total Gas Customers	274,235	275,296	274,127	270,158	266,113	262,968	245,403

Operating Revenue (millions of dollars)

Residential	\$ 7.1	\$ 6.7	\$ 6.2	\$ 6.2	\$ 6.0	\$ 5.7	\$ 5.7
House Heating	55.4	51.3	48.4	45.8	43.1	39.6	33.0
Commercial and Industrial	33.5	30.4	26.7	24.0	21.1	18.7	9.6
All Other	0.5	1.2	1.5	1.4	1.2	1.1	0.1
Total from Distribution System	96.5	89.6	82.8	77.4	71.4	65.1	48.4
Direct from Pipelines	11.8	10.5	10.1	9.5	9.2	9.7	8.0
Other Revenue	0.6	0.4	0.4	0.4	0.4	0.3	0.3
Total Gas Revenue	\$ 108.9	\$ 100.5	\$ 93.3	\$ 87.3	\$ 81.0	\$ 75.1	\$ 56.7

Operating Income Before Income Taxes

(millions of dollars)	\$ 26.9	\$ 22.8	\$ 16.9	\$ 21.7	\$ 18.5	\$ 18.4	\$ 14.7
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STEAM OPERATIONS

Sales (millions of pounds)	7,600	7,762	8,328	8,223	8,172	7,905	6,260
Number of Customers, Dec. 31	710	723	737	733	939	1,179	1,127
Total Steam Revenue (millions of dollars)	\$ 29.3	\$ 19.4	\$ 17.3	\$ 14.2	\$ 10.9	\$ 10.1	\$ 7.6
Operating Income Before Income Taxes							
(millions of dollars)	\$ (3.2)*	\$ 0.7	\$ 1.2	\$ (2.2)	\$ (1.1)	\$ 0.9	\$ 1.2

*Deficit due mainly to delay in recovering increases in fuel costs, since the Company did not defer recoverable fuel cost increases. See Rate Increases page 2.

FISCAL AGENTS FOR STOCKS AND BONDS

PHILADELPHIA ELECTRIC COMPANY—Preferred and Common Stocks

Registrars	Transfer Agents
GIRARD BANK	PHILADELPHIA ELECTRIC COMPANY
One Girard Plaza, Philadelphia, Pa. 19101	2301 Market Street, Philadelphia, Pa. 19101
CHEMICAL BANK	MORGAN GUARANTY TRUST CO. of N.Y.
20 Pine Street, New York, N.Y. 10015	30 West Broadway, New York, N.Y. 10015

PHILADELPHIA ELECTRIC COMPANY—First and Refunding Mortgage Bonds

PHILADELPHIA ELECTRIC POWER COMPANY (A Subsidiary)—First Mortgage Bonds

Trustee	New York Agent
THE FIDELITY BANK	MORGAN GUARANTY TRUST CO. of N.Y.
Broad & Walnut Streets, Philadelphia, Pa. 19109	23 Wall Street, New York, N.Y. 10015

PHILADELPHIA ELECTRIC COMPANY—Debentures

PHILADELPHIA ELECTRIC POWER COMPANY (A Subsidiary)—Debentures

Trustee	New York Agent
THE PHILADELPHIA NATIONAL BANK	IRVING TRUST COMPANY
Broad & Chestnut Streets, Philadelphia, Pa. 19101	One Wall Street, New York, N.Y. 10015

All Philadelphia Electric Company securities, except the Sinking Fund Debentures and those series of First and Refunding Mortgage Bonds and Preferred Stock which were sold privately to institutional investors, are listed on the PBW Stock Exchange and the New York Stock Exchange. Philadelphia Electric Power Company Bonds and Debentures are listed on the PBW Stock Exchange.

BOARD OF DIRECTORS

What does a board of directors do?



Robert F. Gilkeson, Chairman of the Board and Chief Executive Officer of the Company, says, "The Board's basic responsibility is to see that the Company's management is competent and doing their job in the best interest of both shareholders and customers."



James L. Everett, President of the Company, believes that, "One thing our Board does is to make sure we do our homework, to insure that we make decisions in the most careful and in the most intelligent way possible."

Outside members of the Board are not utility specialists, but are essentially overseers, representing the interest of the shareholders. The Company benefits from their wide interests and leadership in community affairs.



William W. Hagerty, President, Drexel University, "I don't think people understand the absolute necessity of electricity in their lives."



William G. Hamilton, Jr., Director, Singer Company (Diversified Manufacturing Company), "I'm concerned that the Company be allowed to make sufficient profit to keep its plants in A-one condition. If not, it may seriously jeopardize the Company's ability to provide reliable service to its customers."



Robert D. Harrison, President, John Wanamaker, Philadelphia (Merchandising), "My concern is that the Company may not, through no fault of its own, be able to supply the levels of energy needed throughout the area. It may happen through outside forces, like the oil crisis. That gave us a flash glimpse of the future. I think it should help correct the reactions of everyone to our energy problems."



Gustave G. Amsterdam, Chairman of the Board, Bankers Securities Corporation (Merchandising and Real Estate). "My worries now are about the whole community but, you can transfer that to the electric company easily. We, the community, are not facing and solving our problems. Our mechanisms to solve our problems seem to be breaking down. In fact, some segments are frustrating the Company's plans to provide power—and for reasons that I think are not in the interests of the community as a whole."



George H. Brown, Jr., Director of Girard Trust Bank. "I'm concerned about the Company's ability to get its message through to people. When misunderstandings begin to bite in essential areas such as needed rate increases, we're in trouble. The Company is almost estopped from raising the capital it needs for the facilities we're all going to want one of these days."



William T. Coleman, Jr., Senior Partner of the law firm of Dilworth, Paxson, Kalish, Levy & Coleman. "What I worry about is whether the Company will be permitted to build the plants it needs to serve future generations."



Paul R. Kaiser, Chairman of the Board, Tasty Baking Company (Manufacturing). "I'm afraid the press and consumers generally are misinformed about the Company and its role in the future. I worry about that future—and how it is going to affect our kids."



Joseph J. McLaughlin, President, Beneficial Mutual Savings Bank. "I have always believed that home ownership is the keystone to democracy. Now, because of rapidly increasing costs, housing is in the same boat as Philadelphia Electric. What happens to both these essential industries will affect all of us very much in the future."



John R. Park, Chairman of the Board and President, American Stores Company (Retail Food). "The great question for me is how the Company will get the capacity it needs—and which the community expects the utility to supply. We may miss the future—simply because we misunderstand the present."

PHILADELPHIA ELECTRIC COMPANY
2301 MARKET STREET
PHILADELPHIA, PA. 19101

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